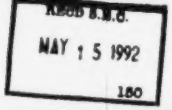

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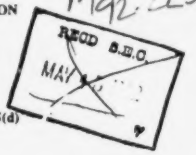

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended March 31, 1992 **Commission File No. 0-17585**

KELLEY OIL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware	**76-0082502**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
fferson St.	
ite 1100	
...ton, Texas	**77002**
(Address of principal executive offices)	**(Zip Code)**

C30

Registrant's telephone number, including area code: (713) 652-5200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No__

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Title of Class	**Outstanding at April 30, 1992**
Common Stock, par value $.01 per share	14,496,225

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KELLEY OIL CORPORATION

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KELLEY OIL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

($ in thousands)

	March 31, 1992 (Unaudited)	December 31, 1991
ASSETS:		
Cash	$ 5,032	$ 13,142
Accounts receivable	14,197	14,387
Accounts receivable - drilling programs	5,429	7,916
Prepaid expenses and other current assets	1,242	514
Total current assets	25,900	35,959
Oil and gas properties, full cost method:		
Unevaluated properties	1,116	1,361
Properties subject to amortization	53,797	47,750
Pipelines and other transportation assets, at cost	1,043	1,060
Furniture, fixtures and equipment	975	929
	56,931	51,100
Less: Accumulated depreciation, depletion and amortization	12,933	11,039
Total property and equipment	43,998	40,061
Other non-current assets (net of accumulated amortization)	4,894	4,908
TOTAL ASSETS	74,792	80,928
LIABILITIES:		
Accounts payable and accrued expenses	$ 7,676	$ 11,189
Accounts payable - drilling programs	10,172	13,398
Current maturities of long term debt	1,050	1,381
Current federal income taxes	25	135
Total current liabilities	18,923	26,103
Long-term debt	12,774	12,315
Convertible subordinated debentures	5,957	5,957
Deferred federal income tax	4,752	4,631
TOTAL LIABILITIES	42,406	49,006
SHAREHOLDERS' EQUITY:		
Preferred Stock, $1.50 par value, 5,000,000 shares authorized, 1,000,000 shares of $.15 Cumulative Convertible, 2,000,000 shares of $.20 Cumulative Convertible and 220,000 shares of $1.00 Cumulative Convertible issued and outstanding at December 31, 1991 and March 31, 1992	4,830	4,830
Common Stock, $.01 par value, 21,000,000 shares authorized, 14,496,225 shares issued and outstanding at December 31, 1991 and March 31, 1992	145	145
Additional paid-in capital	28,911	28,911
Retained earnings	3,067	2,934
	36,953	36,820
Less: Deferred employee compensation	(4,567)	(4,898)
TOTAL SHAREHOLDERS' EQUITY	32,386	31,922
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 74,792	$ 80,928

See Notes to Consolidated Financial Statements.

KELLEY OIL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

($ in thousands except per share data)

(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Oil and gas revenues	$ 3,825	$ 1,977
Pipeline revenues	5,450	9,740
Compensation from managed programs and properties	2,689	2,061
Interest and other income	293	287
Total revenues	12,257	14,065
Production expenses	834	369
Cost of gas sold	5,193	9,267
General and administrative expenses	3,556	3,176
Interest expense	301	92
Depreciation, depletion and amortization	1,887	619
Total expenses	11,771	13,523
Income before income taxes	486	542
Provision for federal income taxes:		
Current	40	69
Deferred	121	107
	161	176
Net income	325	366
Less: cumulative preferred stock dividends	192	192
NET INCOME APPLICABLE TO COMMON AND COMMON EQUIVALENT SHARES	$ 133	$ 174
Earnings per share:		
Primary:		
Net income	$ .01	$ .01
Assuming full dilution:		
Net income	$ .01	$ .01
Average common and common equivalent shares outstanding:		
Primary	14,875	14,706
Assuming full dilution	18,095	17,926

See Notes to Consolidated Financial Statements.

KELLEY OIL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)

(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Operating Activities:		
Net income	$ 325	$ 366
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation, depletion and amortization	1,887	619
Deferred income taxes	121	107
Changes in operating assets and liabilities:		
Increase in accounts receivable	2,677	4,765
Increase in prepaid expenses	(728)	(3,130)
Decrease in accounts payable and accrued expenses	(6,849)	(7,518)
Net cash used in operating activities	(2,567)	(4,791)
Investing Activities:		
Purchases of property and equipment	(5,831)	(4,277)
Proceeds from sale of equipment	21	---
Net cash used in investing activities	(5,810)	(4,277)
Financing Activities:		
Proceeds from long-term borrowings	461	335
Principal payments on long-term borrowings	(2)	(2)
Dividends paid on preferred stock	(192)	(192)
Net cash provided by financing activities	267	141
Decrease in cash and cash equivalents	(8,110)	(8,927)
Cash and cash equivalents, beginning of period	13,142	14,591
Cash and cash equivalents, end of period	$ 5,032	$ 5,664

See Notes to Consolidated Financial Statements.

NOTE 1 - BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles and, in the opinion of management, the information furnished reflects all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim periods presented.

The accounting policies followed by Kelley Oil Corporation ("Kelley Oil" or the "Company") are set forth in Note 1 to the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 31, 1991, which is incorporated herein by reference.

NOTE 2 - PENDING EXCHANGE OFFER

In February 1992, Kelley Oil & Gas Partners, Ltd., a publicly traded limited partnership managed by the Company ("Kelley Partners"), filed a registration statement with the Securities and Exchange Commission (the "SEC") covering a proposed exchange offer (the "1989 DDP Exchange") of Units in Kelley Partners for interests of investors and the general partners in Kelley Partners 1989 Development Drilling Program, a publicly held drilling partnership also managed by the Company (the "1989 DDP"). The number of Units issuable in the 1989 DDP Exchange will be determined by dividing the exchange value of the 1989 DDP's net assets by the average market price of the Units prior to commencement of the exchange offer. Approval of the 1989 DDP Exchange requires the consent of a majority in interest of the unitholders in the 1989 DDP. Kelley Oil and its officers and directors own 42.04% and 4.73%, respectively, of the units in the 1989 DDP and are expected to tender their interests (including Kelley Oil's 3.94% general partner interest) in the 1989 DDP, in which case the approval of the 1989 DDP Exchange would be virtually assured.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Company Operations. Kelley Oil derives revenues from its oil and gas operations and from its interests as both managing general partner and a unitholder in Kelley Oil & Gas Partners, Ltd. ("Kelley Partners") and development partnerships sponsored by the Company to conduct development drilling activities on properties of Kelley Partners ("Development Partnerships"). The Company accounts for these investments using the proportionate consolidation method, combining its share of assets, liabilities, income and expenses of Kelley Partners and the Development Partnerships (the "Kelley Group") with those of the Company's separate operations.

In addition to its oil and gas development and producing activities, Kelley Oil markets natural gas and operates natural gas gathering and transportation systems in Louisiana through Concorde Gas, Inc., a subsidiary in which Kelley Oil increased its ownership from 50% to 100% in June 1989 ("Concorde Gas"). The operations of Concorde Gas have had a significant impact on the Company's financial statements, with revenues and expenses of Concorde Gas (categorized primarily as pipeline revenues and cost of gas sold) aggregating $34,129,000 and $32,913,000, respectively, in 1991 compared to $2,000 and $152,000, respectively, in 1987.

Oil and Gas Markets. Since the mid-1980's, the prices of oil and natural gas have generally remained depressed as a result of an oversupply of a number of fuels, particularly natural gas, relative to the demand for these commodities. Due to the oversupply of natural gas, many gas purchasers such as interstate and intrastate pipelines have reduced their takes from producers below historic levels and have implemented a variety of new marketing approaches, including gas clearinghouses and bid programs (designed as vehicles for month-to-month spot sales) and various types of marketing programs, in an effort to increase or regain sales previously lost to competing fuels or to avoid additional take-or-pay liabilities to producers. In some cases, purchasers have unilaterally reduced prices payable under their gas purchase contracts or have otherwise refused to comply with their terms. End users have also begun to negotiate directly with producers for the purchase of natural gas. The prices received by gas sellers in these programs and situations are typically lower than prices previously received under longer term contracts with pipelines and are generally more responsive to changes in demand for gas at the end user level.

Kelley Oil has endeavored to mitigate the effect of these market conditions through restructuring its gas marketing and distribution arrangements and establishing a separate but related line of business in 1988 through Kelley Partners' acquisition and operation of the Pipeline Facilities in Louisiana. The Company's oil and gas operations will continue to be affected, however, by the unsettled energy markets, which in turn are influenced by a variety of factors beyond the control of producers, including general economic conditions, the extent of domestic production and foreign imports of oil and gas, weather conditions and their impact on consumer demand, government regulations, the availability of pipelines and the rate of inflation. A combination of these factors, particularly temperate weather conditions, has resulted in unseasonably weak prices for natural gas in 1991 and the first quarter of 1992, with seasonally adjusted prices in the first quarter this year reaching their lowest level in over fifteen years. See "Results of Operations" below. These factors make it particularly difficult to estimate the future prices and sales volumes of oil and gas and may result in continued erosion in the prices paid for the Company's oil and gas production.

Full Cost Accounting. Kelley Oil has elected to account for its oil and gas properties and related development and production activities using the full cost method prescribed by SEC financial reporting rules. The full cost method imposes limitations on the carrying or book value of the Company's oil and gas properties and requires a writedown or non-cash charge against earnings for any quarter in which its full cost pool of acquisition and development costs for properties subject to amortization (reduced by total depletion and related

charges) exceeds a cost center ceiling generally corresponding to the standardized measure of discounted future net cash flows from its proved oil and gas reserves based on prices received for its oil and gas production as of the end of that quarter.

Recent Developments

General. The Company's operating results for the first quarter of 1992 were adversely affected by unseasonably low natural gas prices, which declined by 14.5% and 29.1% compared to average prices received for its natural gas production in the first quarters of 1991 and 1990, respectively. First quarter results this year also reflect declining prices for the Company's crude oil production. Kelley Oil has endeavored to offset part of the impact of depressed oil and gas prices by increasing production primarily through its active development drilling operations. During the first quarter this year, Kelley Oil participated in drilling six new development wells, of which 5 gross (1.34 net) wells were found to be productive, adding to the Company's 29 gross (7.62 net) wells completed as producers last year and contributing to Kelley Oil's production gains of 114.8% on a gas equivalent basis in the first quarter of 1992 compared to 1991 first quarter production levels. The Company anticipates continued production gains from recent and prospective well completions, with 8 gross (2.8 net) wells being drilled at the end of the quarter, and expects significantly increased cash flow for the balance of the year over 1991 levels, although oil and gas prices are expected to remain relatively weak during 1992.

Natural Gas Marketing Developments. The average prices received for Kelley Oil's natural gas production during 1991 and the first quarter of 1992 reflect depressed conditions in the oil and gas industry generally. As a result of these conditions and factors affecting its customer markets, Texas Eastern Transmission Corporation ("Texas Eastern"), which accounted for 18.1% of the Company's total revenues in 1991, exercised its right in May 1991 to purchase natural gas under its gas purchase contract with Kelley Oil at its then prevailing market-clearing level corresponding generally to the spot market prices in the production area at that time. In July 1991, Texas Eastern made a proposal that was subsequently accepted by Kelley Oil for the purchase of up to 75.2% of the Kelley Group's dedicated gas during the period from November 1991 through February 1992 at prices slightly above the prevailing spot market index in the production area. Continuing disruption in its customer markets resulted in declining takes by Texas Eastern during the commitment period. In response to these developments, the Company has endeavored to expand the Kelley Group's gas sales in alternative intrastate markets that are expected to provide greater stability and operating flexibility despite pricing levels substantially less favorable to the Kelley Group than the original contractual formula with Texas Eastern.

1991 DDP Closing. In October 1991, Kelley Partners 1991 Development Drilling Program, the fifth Development Partnership (the "1991 DDP"), completed a public offering of 11,471,411 units of limited and general partner interests at $3.00 per unit with gross offering subscriptions of $34,414,233, together with contributions of the general partners aggregating $1,418,997. Unitholders in Kelley Partners subscribed preemptively for a total of 2,988,582 units in the 1991 DDP, officers and directors of Kelley Oil for 415,873 units and the Company for the balance of 8,066,956 units. The Company's subscription for units in the 1991 DDP, when combined with its 3.94% general partner interest, represents a total interest of 71.5% in the 1991 DDP. Kelley Oil's investments in prior Development Partnerships have ranged from approximately 26.5% to 68.3% of the total program interests and have added significantly to the Company's oil and gas reserves and cash flow from operations.

From its inception through May 14, 1992, the 1991 DDP has participated in drilling a total of 15 development wells, of which 12 gross (3.94 net) wells have been found productive, 2 gross (.50 net) wells have been plugged and abandoned as dry holes and 1 gross (.65 net) well has been temporarily abandoned pending further evaluation. The Company currently expects that substantially all the development activities on properties of Kelley Partners through the end of the third quarter of 1992 will be financed by the 1991 DDP, together with Kelley Partners' direct participation, which is being maintained at one-third for Kelley Partners and two-thirds for the 1991 DDP. In selecting prospect areas for Kelley Partners and the 1991 DDP, the Company is seeking

to balance varying risk and reward profiles associated with properties in different fields. It is currently anticipated that approximately two-thirds of the combined development funds, aggregating approximately $35 million from the 1991 DDP and $17.5 million from Kelley Partners, will be allocated to drilling activities on prospects in Kelley Partners' southern Louisiana fields. The geologically complex trends in these areas often involve significantly deeper pays and present greater risks but are generally more prolific than the overlapping sands found in Kelley Partners' northern Louisiana fields, while drilling to the shallower reservoirs in the Salt Basin of northern Louisiana is usually less expensive on a per well basis with less reserve potential.

Pending Exchange Offer. In February 1992, Kelley Partners filed a registration statement with the SEC covering a proposed exchange offer (the "1989 DDP Exchange") of Units in Kelley Partners for interests of investors and the general partners in Kelley Partners 1989 Development Drilling Program, the third Development Partnership (the "1989 DDP"). The number of Units issuable in the 1989 DDP Exchange will be determined by dividing the exchange value of the 1989 DDP's net assets by the average market price of the Units prior to commencement of the exchange offer. Approval of the 1989 DDP Exchange requires the consent of a majority in interest of the unitholders in the 1989 DDP. Kelley Oil and its officers and directors own 42.04% and 4.73%, respectively, of the units in the 1989 DDP and are expected to tender their interests (including Kelley Oil's 3.94% general partner interest) in the 1989 DDP, in which case the approval of the 1989 DDP Exchange would be virtually assured.

Results of Operations

General. The Company's growth since 1986 has resulted primarily from its increasing interests in the Kelley Group's acquisitions of producing oil and natural gas properties and development drilling activities as well as the expanded natural gas marketing operations of Concorde Gas. Kelley Oil generally experiences some seasonal variations in its oil and gas revenues due to price increases in the spot markets during the winter. While natural gas price movements during the beginning of 1992 have not followed historical patterns, the Company's operating results remain sensitive to price fluctuations in the oil and gas markets.

Quarter Ended March 31, 1992 Compared to Quarter Ended March 31, 1991. Oil and gas revenues of $3,825,000 for the first quarter of 1992 increased 93.5% compared to $1,977,000 in the same quarter last year. Production of natural gas during the current quarter increased 106.1% to 1,871,000 Mcf from 908,000 Mcf in the first quarter of 1991, while the average price of natural gas decreased 14.5% to $1.41 per Mcf in the current quarter from $1.65 per Mcf in the corresponding quarter last year. Production of crude oil and natural gas liquids in the current quarter totalled 62,165 barrels, with an average sales price of $18.96 per barrel compared to 22,859 barrels at $21.68 per barrel in the same quarter last year, representing a volume increase of 171.9% partially offset by a price decline of 13.3%.

The increase in oil and gas production and revenues during the first quarter of 1992 reflects expanded operations of Kelley Partners and the completion of eleven additional wells being produced to sales since the end of the first quarter last year by Kelley Partners 1990 Development Drilling Program, the fourth Development Partnership (the "1990 DDP"), and by the 1991 DDP. The Company has interests in the 1989 DDP, the 1990 DDP and the 1991 DDP aggregating 44.3%, 68.3% and 71.5%, respectively, of the total partnership interests in those programs. The growth in revenues also reflects an increase in the Company's interest in Kelley Partners through an exchange offer, effective as of April 1, 1991, for interests in Kelley Partners 1988 Development Drilling Program, the second Development Partnership. Oil and gas revenues attributable to the Company's interests in Kelley Partners and the Development Partnerships aggregated $592,000 and $3,159,000, respectively, in the first quarter this year compared to $400,000 and $1,480,000, respectively, in the corresponding quarter in 1991.

Pipeline revenues of $5,457,000 attributable to the natural gas marketing and transportation operations of Concorde Gas for the first quarter of 1992 decreased 44.0% compared to $9,740,000 in the same period last

year, reflecting increased intercompany volumes eliminated in consolidation and the decrease in prices of natural gas marketed by Concorde Gas, while associated expenses of $5,193,000 in the current quarter attributable primarily to the cost of gas sold in marketing activities decreased 44.0% compared to $9,267,000 in the first quarter of 1991. The Company's operating income from pipeline operations declined 45.7% compared to the prior year, reflecting lower pipeline revenues as well as a temporary reduction by Concorde Gas in its fee rates under gas purchase and marketing agreements with the Kelley Group pending improvements in natural gas prices. The reduction is not expected to remain in effect during periods of improved natural gas prices.

During the first quarter this year, the Company received compensation from affiliated programs and managed properties, representing reimbursement of general and administrative expenses incurred on behalf of Kelley Partners, the Development Partnerships and other working interest owners of properties operated by Kelley Oil, aggregating $2,689,000, compared to $2,061,000 in the corresponding quarter in 1991, an increase of 30.5%. The increase reflects additional overhead expense associated with the first full quarter of operations for the 1991 DDP, the expansion of operations of the other programs managed by Kelley Oil and a substantial increase in the number of wells operated by the Company, currently in excess of 180 wells.

Production expenses relating to oil and gas operations for the first quarters of 1992 and 1991 were $834,000 and $369,000, respectively, an increase of 126.0% on a comparative basis, reflecting expanded oil and gas operations in the current quarter. As a percentage of oil and gas revenues, production expenses increased to 21.8% in the current quarter from 18.7% in the corresponding prior quarter, reflecting price declines for oil and natural gas production.

General and administrative expenses aggregated $3,556,000 in the first quarter of 1992, or $867,000 after giving effect to compensation from affiliated programs and managed properties, representing an increase of 12.0% over aggregate general and administrative expenses of $3,176,000 in the corresponding quarter of 1991 and a decrease of 22.2% from non-reimbursed overhead costs of $1,115,000 in the first quarter last year. The increase in these aggregate expenses is primarily attributable to additions to the Company's staff and leased office space during 1991 to accommodate the substantial growth in the size of affiliated programs managed by the Company, while the decline in non-reimbursed costs reflects an increase in the proportion of management resources allocated to the operation of affiliated programs. Aggregate general and administrative expenses represented 29.0% of revenues in the first quarter of 1992 compared to 22.6% of revenues in the same quarter last year due to the decline in oil and gas prices, while non-reimbursed overhead costs represented 7.1% and 7.9% of revenues in the same respective periods.

Depreciation, depletion and amortization increased 204.8% from $619,000 in the first quarter of 1991 to $1,887,000 in the current quarter, reflecting additional depletion attributable to increased production and additions to the Company's interests in oil and gas properties. As a percentage of revenues, depreciation, depletion and amortization increased from 4.4% in the first quarter last year to 15.4% in the current quarter, due primarily to decreased oil and gas prices and lower pipeline revenues.

Interest expense of $301,000 in the first quarter of 1992 increased 227.2% compared to $92,000 incurred in the corresponding quarter last year, reflecting increased current borrowings by Kelley Oil to finance part of its investment in the 1990 DDP and the 1991 DDP.

Net income of $486,000 before income taxes and Preferred Stock dividends in the first quarter of 1992 decreased 10.3% compared to $542,000 in the same quarter last year, primarily reflecting the Company's production gains partially offset by the decrease in oil and gas prices. Net income for the current quarter was reduced by provisions of $121,000 for deferred income taxes and $40,000 for current income taxes and by Preferred Stock dividends of $192,000. Current federal income taxes are being provided as a result of the full utilization of alternative minimum tax net operating loss carryforwards in prior periods. Deferred income taxes are provided to account for timing differences arising when revenues or expenses are recognized in different periods for financial and tax reporting purposes. These timing differences relate primarily to intangible drilling

and development costs associated with oil and gas properties capitalized and amortized based upon units of production for financial reporting purposes and expensed as incurred for tax reporting purposes, together with differences in financial reporting provisions for depreciation and amortization and that of income tax reporting.

Working capital provided by operations, considered by Kelley Oil as its primary operating benchmark, aggregated $2,333,000 in the first quarter of 1992, an increase of 113.6% compared to $1,092,000 in the corresponding quarter last year, reflecting the foregoing trends. Working capital provided by operations of the Company generally corresponds to its net income plus non-cash charges comprised of depreciation, depletion and amortization and deferred income taxes. The Company anticipates continuing growth in operating working capital primarily from its increased interests in affiliated programs, including its combined 71.5% interest in the 1991 DDP.

The results of operations for the quarter ended March 31, 1992 are not necessarily indicative of results to be expected for the full year.

Liquidity and Capital Resources

Liquidity. Net cash used in operating activities of the Company during the first quarter of 1992 aggregated $2,567,000. Kelley Oil's cash position was increased during the quarter by proportionately consolidated proceeds from indirect long-term debt of $461,000. Funds were used in investing and financing activities comprised of property and equipment expenditures of $5,831,000 and Preferred Stock dividends of $192,000. As a result of these activities, cash and cash equivalents decreased from $13,142,000 at December 31, 1991 to $5,032,000 at March 31, 1992.

Capital Resources. The Company maintains a credit agreement with Bank One, Texas, NA (the "Bank") providing for a revolving credit facility of up to $6,500,000 (the "Credit Facility"). In addition to the Credit Facility, the Company and its Employee Stock Ownership Plan (the "ESOP") are parties to a loan agreement with the Bank providing for term loans that refinanced prior ESOP borrowings used to acquire Preferred Stock from the Company (the "ESOP Term Loans").

The ESOP Term Loans are divided into two facilities. The first facility was originally established in August 1990 at $5,000,000 and bears interest at the rate of 8.81% per annum. The second facility in the original amount of $1,357,000 did not provide tax advantages to the Bank and therefore bears interest at the rate of 10.36% per annum. The ESOP Term Loans are serviced to the full extent of all ESOP contributions from the Company and all Preferred Stock dividends received by the ESOP, with the unamortized balances payable on June 15, 1994, except that the loan attributable to the ESOP's purchase of Preferred Stock in December 1986 will mature on December 24, 1993. The ESOP Term Loans are secured by all unallocated shares of Preferred Stock owned by the ESOP and by the Company's guaranty, which in turn is secured by a pledge of Kelley Oil's assets. As of March 31, 1992, $4,567,000 was outstanding under the ESOP Term Loans.

The Credit Facility provides for borrowings by the Company in amounts not to exceed a borrowing base that is redetermined by the Bank from time to time based on a portion of the market value of Units in Kelley Partners owned by Kelley Oil (the "Unit Value Component") and the discounted present value of the Company's proved oil and gas reserves attributable to its directly owned properties and interests in affiliated Development Partnerships (the "Reserve Component"). The Unit Value Component changes with fluctuations in the market price of Units, and the Reserve Component is redetermined at least semiannually by the Bank upon submission of updated reserve reports. The borrowing base is then reduced by the outstanding balance of the ESOP Term Loans to determine the direct borrowing base available to the Company. Based on this methodology, the direct borrowing base has been established since September 1991 at $6,500,000, all of which was advanced during 1991 primarily to fund a portion of the Company's remaining subscription commitment to the 1990 DDP. Kelley Oil

believes that its substantial growth in oil and gas reserves attributable to its interests in affiliated programs will support a larger facility and is pursuing discussions to that end.

Interest is payable on borrowings under the Credit Facility at a floating rate equal to 3/4% above the Bank's prime rate, together with a commitment fee of 1/2% per annum of the unused portion of the available borrowing base. The Credit Facility provides for payments of interest only until maturity on June 15, 1994. Borrowings under the Credit Facility are secured by the pledge of substantially all of the Company's assets. The Credit Facility requires the consent of the Bank for third-party borrowings and is prepayable without penalty or premium. As of March 31, 1992, $6,500,000 was outstanding under the Credit Facility.

Kelley Partners has an outstanding issue of 8½% Convertible Subordinated Debentures in the aggregate principal amount of $26,881,000 and has obtained advances under its revolving credit facility in varying amounts. The Company's proportionate interest in Kelley Partners' total debt outstanding at March 31, 1992 was $2,740,000. Kelley Oil's indirect long-term debt was reduced substantially in October 1991 upon Kelley Partners' repayment of its credit facility borrowings aggregating $40,000,000 from a portion of the proceeds from a public offering of 3,970,000 Units in Kelley Partners.

In September and November 1991, Kelley Oil issued in a private placement $5,582,250 principal amount of its 8% Convertible Subordinated Debentures due 2001. The Debentures are convertible into shares of the Company's Common Stock at a conversion price of $11.50, subject to customary antidilution adjustments, and are redeemable upon the occurrence of certain specified events. Net proceeds from the Debenture offering were applied primarily to fund a portion of Kelley Oil's subscription commitment to the 1991 DDP.

Capital Commitments. In October 1991, the 1991 DDP completed a public offering of 11,471,411 units of limited and general partner interests at $3.00 per unit with gross offering subscriptions of $35,833,230, including contributions of the general partners aggregating $1,418,997. In accordance with its undertakings in the partnership agreement of Kelley Partners, the Company subscribed for all units in the 1991 DDP that were not subscribed preemptively by investors in Kelley Partners, aggregating 8,066,956 units. The Company's subscription for units in the 1991 DDP, when combined with its 3.94% general partner interest, represents a total interest of 71.5% in the 1991 DDP. Under the deferred payment option applicable to investments exceeding $10,000 in Development Partnerships, Kelley Oil made an initial contribution of $2,415,178 representing 10% of its subscription commitment for units in the 1991 DDP, plus $141,183 as an initial payment for its 3.94% general partner interest.

In February 1992, the Company made the first capital call for deferred subscriptions up to $1.30 per unit in the 1991 DDP. In accordance with that capital call, the Company has contributed an additional $8,542,000 to the 1991 DDP. The balance of the Company's subscription commitment to the 1991 DDP aggregating $14,514,000 is payable through July 15, 1992 under the deferred payment option.

Working capital provided by the Company's operations in the first quarter of 1992 totaled $2,333,000 compared to $1,092,000 in the same period last year. Although Kelley Oil generally experiences some seasonal fluctuations in oil and gas revenues due to price increases in the spot markets during the winter, unseasonably temperate weather adversely affected natural gas prices throughout 1991 and the first quarter of 1992. The current weakness in natural gas prices as well as price declines for crude oil production has offset a portion of the benefits that the Company would otherwise derive from its significant production gains, reducing the rate of growth in operating cash flows dedicated predominantly to its investments in Development Partnerships. Kelley Oil anticipates that the balance of its investment commitment to the 1991 DDP will exceed its existing working capital and cash flow from operations during the deferred payment period ending in July 1992. Accordingly, the Company is exploring an increase in its Credit Facility and other financing alternatives to support its commitment to the 1991 DDP and subsequent Development Partnerships pending improvements in the natural gas markets. The Company believes that its internally generated funds, together with funds expected

to become available under the Credit Facility or alternative financing, will be sufficient to supply all working capital needed to carry on its operations, including the satisfaction of its deferred subscription commitment to the 1991 DDP, which represents the Company's sole material capital expenditure commitment.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) *Exhibits.*

Exhibit Number	Exhibit
11.0	Statement regarding computation of per share earnings.

(b) *Reports on Form 8-K.*

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KELLEY OIL CORPORATION

Date: May 14, 1992

By: W. Matt Ralls

W. Matt Ralls,
Senior Vice President and
Chief Financial Officer
(Duly Authorized Officer)
(Principal Financial Officer)

EXHIBIT 11

STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

(Amounts in thousands, except per share data)

	Three Months Ended March 31,	
	1992	1991
PRIMARY:		
Average shares outstanding	14,496	14,299
Net effect of dilutive stock options--based on the treasury stock method using average market price	379	407
TOTAL	14,875	14,706
Net income	$ 325	$ 366
Less cumulative preferred stock dividends	192	192
Net income applicable to common and common equivalent shares	$ 133	$ 174
Per share amounts:		
Net income	$ .01	$ .01
ASSUMING FULL DILUTION:		
Average shares outstanding	14,496	14,299
Net effect of dilutive stock options--based on the treasury stock method using average market price	379	407
Assumed conversion of 8% convertible debentures	(2)	(2)
Assumed conversion of cumulative preferred stock	3,220	3,220
TOTAL	18,095	17,926
Net income	$ 325	$ 366
Less cumulative preferred stock dividends	192	192
Add cumulative preferred stock dividends	(1)	(1)
Add 8% convertible subordinated debentures interest, net of federal income tax effect	(2)	(2)
Net income applicable to common and common equivalent shares	$ 133	$ 174
Per share amounts:		
Net income	$ .01	$ .01

(1) The effect of Preferred Stock dividends is not added back for the three months ended March 31, 1992 and 1991 because the dividends are used to service debt of the Company's Employee Stock Ownership Plan and are considered a nondiscretionary adjustment related to the conversion of the stock.

(2) The assumed conversion of the 8% convertible subordinated debentures for the three months ended March 31, 1992 and 1991 would have an anti-dilutive effect for the computation of earnings per common shares and equivalents; therefore, conversion has not been assumed for this period.